

HSBC International ACH Transactions Update

April 2009

Over the past several years, the National Automated Clearing House Association (NACHA) has worked with the Office of Foreign Assets Control (OFAC) to amend ACH operating rules, in order to minimize vulnerabilities in the ACH network and prevent OFAC-banned entities from using the network as a conduit to send or receive funds. The NACHA IAT rule change includes an expanded definition of a NACHA international ACH transaction (IAT), a new file format for IAT entries, and a requirement for banks to OFAC screen such transactions. All participants in the ACH network – from financial institutions, ACH Operators and corporate practitioners – could be affected and must comply by September 18, 2009 with the regulatory mandate.

As a foundation to the process, NACHA is introducing a new ACH Standard Entry Class (SEC) code, "IAT" (International ACH Transaction), which contains new field requirements. This new SEC will replace CBR and PBR in September and has an expanded definition. The IAT format must be used for any ACH transaction, originated or received, that involves a foreign financial agency or money transmitter that is party to any part of the payment transaction, even if that transaction begins as a wire or interbank transfer.

The key distinguishing factors in determining whether or not a transaction is an IAT are:

- 1. Location of the financial agency that originates or receives the payment transaction (movement of the funds).** To be considered foreign, the financial agency must be outside the territorial jurisdiction of the United States. Certain domestic transactions that are currently sent as standard SEC codes such as PPDs or CCDs will be categorized as international transactions and must be formatted and sent as IATs, if a foreign financial agency is involved. The location of the person or organization originating or receiving the payment transaction is not material in defining an IAT.
- 2. Specific involvement of the financial agency in the payment transaction.** An agency is involved if it:
 - ▶ holds an account that is credited or debited as part of a payment transaction; or
 - ▶ receives funds directly from a Person or makes payment directly to a Person as part of a payment transaction; or
 - ▶ serves as an intermediary in the settlement of any part of a payment transaction.
- 3. The nature of the funding.** There are IAT exceptions for recurring funding of general operating activities from a foreign financial agency. Please refer to the material in the Additional Resources section below.

How the NACHA Rule Change Affects You

Every HSBC client that uses ACH services needs to be familiar with the IAT rules, understand and acknowledge when IAT requirements apply to your payments, ie vendor, employee or pension payments, and contractually agree that your ACH activities are in compliance. To assist in your evaluation, NACHA has developed several scenarios (“IAT Payments Scenarios Simplified” or “IAT Payments Scenarios: Domestic or International?”) as a guideline. This can be located in a section of its Web site dedicated to [IAT education](#).

As a general rule of thumb, IAT requirements will apply to transactions you originate if your organization:

- ▶ Receives explicit funding for your ACH payments from a parent company or a subsidiary in another country
- ▶ Pays employees in another country using a foreign financial institution located in the US for further credit to a branch in another country
- ▶ Collects ACH funds to remit payments to individuals or businesses in other countries
- ▶ Has a correspondent banking relationship with HSBC with the purpose of sending ACH payments on behalf of your customers in another country
- ▶ Originates CBR and PBR entries, which will be replaced by IAT entries

Once you have identified scenarios that may be deemed IAT, you should ensure that you have the mandatory remittance information available to identify all parties of the payment. The mandatory information mirrors that which is required for international wire transfers (also known as “Travel Rule” data). Please refer to “IAT Specific Data Elements” on the IAT section of the NACHA Web site.

Services Provided by HSBC

Starting September, your organization will be able to receive IAT items for posting to your HSBC account. HSBC will OFAC scan any IAT items prior to posting. As the receiving depository financial institution (RDFI), we are responsible for rejecting or freezing the proceeds of a transaction involving interests of OFAC-blocked parties.

IAT origination services are currently being evaluated and will be communicated in further updates.

Your HSBC Payments and Cash Management Sales representative or Client Service representative is always available to provide guidance; however, you should note that ultimately, your organization will bear the responsibility for ensuring your compliance with the new rules applicable to IATs.

Additional Resources

[NACHA Rules](#)
[NACHA IAT Information](#)

Make particular note of the following:

- ▶ IAT Payment Scenarios Simplified
- ▶ IAT FAQs for Corporate Practitioners
- ▶ Is My Transaction an IAT?
- ▶ IAT Readiness Checklist for Corporate Practitioners
- ▶ IAT Specific Data Elements

[Office of Foreign Assets Control](#)